

VZCZCXRO9062
OO RUEHBC RUEHDE RUEHKUK RUEHMOS
DE RUEHDM #6544/01 3520954
ZNY CCCCC ZZH
O 180954Z DEC 05
FM AMEMBASSY DAMASCUS
TO RUEHC/SECSTATE WASHDC IMMEDIATE 6199
INFO RUEHEE/ARAB LEAGUE COLLECTIVE PRIORITY
RUEHTV/AMEMBASSY TEL AVIV PRIORITY 0645
RHEHNSC/NSC WASHDC PRIORITY
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RHEHAAA/WHITE HOUSE WASHDC PRIORITY
RUCNDT/USMISSION USUN NEW YORK PRIORITY 0048

C O N F I D E N T I A L SECTION 01 OF 02 DAMASCUS 006544

SIPDIS

SIPDIS

NEA/ELA
NSC FOR ABRAMS/DORAN/SINGH
TREASURY FOR GLASER/LEBENSON
EB/ESC/TFS FOR SALOOM

E.O. 12958: DECL: 12/18/2015
TAGS: [ECON](#) [EFIN](#) [EINV](#) [SY](#)
SUBJECT: SARG STABILIZES ITS CURRENCY

REF: A. A: DMS 6224
[1](#)B. REF B: 6131

1.(C) Summary. The SARG began intervening last week in defense of its currency after four months of steady decline. Though the business community had opposed using the country's hard currency reserves to defend the pound, the climate for business had deteriorated to such an extent in recent weeks that most Syrians quietly welcomed the intervention as an opportunity to regroup. Even SARG supporters admit, however, that the SARG's ability to sustain its current measures are limited and the currency could face increased strain if international pressure is sustained. End summary.

2.(C) Over the last ten days, the SARG has moved to reverse the recent ten percent devaluation of its currency (ref B). The state-controlled press reported on December 7 that President Bashar al-Asad had met the previous evening with his economic team to discuss stabilizing the exchange rate for the Syrian Pound. The same day, the Central Bank of Syria began an intervention that continues today. As described to us, the intervention began when the security services ordered the largest money-changer in Syria's black market, Sahloul, aka Abu Shafiq (ref A), to move his operations into the Central Bank. The SARG provides no public information on its interventions but a business partner of Sahloul told us that the money changer is responsible for dispensing hard currency into the black market. According to him, the SARG decided to intervene with 1.2 billion through the Commercial Bank of Syria (CBS) to finance imports, and an initial 100 million USD for the informal sector, with another 100 million USD if needed.

3.(C) The amount of SARG hard currency reserves is also not public knowledge, but we have heard numbers ranging from 12 to 20 billion USD from contacts in the banking sector. Besides the secrecy, part of the reason for the conflicting numbers is due to the way the SARG holds its reserves. The general manager of one of Syria's new private banks recently related to us his own understanding of the current status of the country's hard currency reserves. According to him, the Central Bank itself holds not more than 4 billion USD in hard currency. The majority of reserves are held by the CBS, as much as 12 billion USD currently, with another four billion USD in various other state-owned banks, for a total of 20 billion USD in hard currency - primarily USD. No matter the exact amount, it is widely accepted that the SARG has accumulated significant reserves over the last few years, and

with imports not expected to top 6.2 billion USD in 2006, it retains the ability to intervene successfully over the short-term.

4.(C) Syrians all remember the bad old days of the mid-80s, however, when the SARG had considerable hard currency reserves but decided to use them to prop up its currency when it came under pressure following the loss of the generous development assistance Syria had been receiving from Arab oil-producing states. The SARG successfully defended the value of the pound for a year or two, but then ran out of hard currency. The pound then devalued precipitously, seriously eroding the life savings of many Syrians. Those who had been in business at that time are still bitter when discussing the experience and are convinced that the only people who profited from the SARG's intervention were regime insiders who were able to convert their pounds to hard currency at a favorable rate and then move their assets out of the country before the collapse. For that reason, the vast majority of established businessmen have opposed an intervention up till now (ref B).

5.(C) In spite of that, the SARG's intervention has generally been welcomed as a respite from what had been a rapidly deteriorating business environment. A number of businessmen had told us in recent weeks that they had decided to shut down their factories because the extreme volatility of the pound made it impossible for them to gauge the true value of the currency. Additionally, most businesses lost access to the black market because of the regressive SARG tactic of arresting the moneychangers (ref B) and, therefore, could not finance their business's import needs. (Note. Most importers still opt to go through the black market to obtain

DAMASCUS 00006544 002 OF 002

hard currency because the CBS is slow, bureaucratic, only finances certain categories of imports, and to avoid paying taxes. End note.)

6.(U) The SARG has been quick to declare success. Previously, with each new development in the investigation of the Rafiq Hariri assassination, the value of the pound fell perceptibly. Last week was different. The currency devalued by half a pound, from 57.50 to 58SP per USD, within an hour of the Gebran Tueni assassination. By the end of the day, however, the rate was back down to 57.65SP per USD. The next day, Deputy Prime Minister for Economic Affairs, Abdullah Dardari, pointed to this as proof that the SARG had taken control of the exchange rate away from the black market moneychangers.

7.(C) Comment. The SARG had a relatively progressive plan for managing its currency: give the Central Bank monetary tools like treasury bills to manage the currency, increase public access to formal hard currency exchanges, and formalize the black market. Unfortunately, the regime opted to revert instead to the regressive tactics that have failed in the past. Though temporarily stabilized, the exchange rate will remain a significant issue for the SARG as long as the current political crisis continues. It will also remain the bell-weather for Syrians' confidence in the SARG's ability to manage the country's economy.

SECHE